# Central Bank Weekly - 18th April 2025

# Previewing PBoC LPR; Reviewing Fed Chair Powell, ECB, BoC, BoK, RBA Minutes and CBRT

## PREVIEWS

**PBOC LPR (SUN)**: There are currently no expectations as to what the PBoC may opt to do with the upcoming benchmark Loan Prime Rates (LPR) settings, particularly in the face of triple-digit levies from the US. As a reminder last month, Chinese major banks unsurprisingly maintained the benchmark Loan Prime Rates with the 1-year LPR kept at 3.10% which is the rate most new loans are based on, and with the 5-year LPR maintained at 3.60% which is the reference for mortgages. The decision to maintain the Loan Prime Rates was widely expected as there hasn’t been any adjustment to the LPRs since the last cut in October, while the PBoC has also refrained from any adjustment to its main policy tool, the 7-day reverse repo, which has been left unchanged at 1.50% since September. Nonetheless, future policy action is anticipated, namely in the form of a RRR cut. According to a recent poll, more than 80% of 57 Chinese economists surveyed said to urge RRR cuts at an appropriate time to counter-tariffs, according to Securities Times.

## REVIEWS

**FED CHAIR POWELL REVIEW**: Chair Powell's remarks were being scrutinised to see if the FOMC is on the cusp of a change in policy approach, given that US trade policy has the potential to boost inflation and drag on the labour market, complicating the Fed's job. Powell said that the Fed is well-positioned to wait for greater clarity before considering any change to its policy stance, though added that policymakers may find themselves in a challenging scenario where its dual-mandate goals are in tension; if that occurs, the FOMC would consider how far the economy is from each goal and potential time horizons for those gaps to close, Powell said. The Fed Chair noted that the Administration's policies are still evolving, though the potential effects remain highly uncertain. So far, Powell sees the larger-than-expected tariffs translating into higher inflation and slower growth. He warned that the inflationary effects of tariffs could be more persistent, but that it would ultimately depend on inflation expectations. He described the current state of tariffs as even larger than the Fed's upside estimates and said they would likely move the Fed away from its goals for the balance of this year. He reiterated that the Fed must keep inflation expectations well anchored to ensure that it does not become ongoing inflation and to ensure that price rises are a one-time increase. More generally, Powell said the economy was 'solid' despite heightened uncertainty and downside risks, though growth likely slowed in Q1 vs last year's solid pace, and strong Q1 imports will weigh on GDP growth. On inflation, Powell said inflation is a bit above the Fed's 2% goal, but it has come down a great deal; he estimates that PCE prices likely rose 2.3% Y/Y in March, while core PCE is seen at 2.6%. The 'solid' labour market is at or near maximum employment, broadly in balance, and is not contributing to inflation. He suggested that government layoffs were not yet big enough to have a material effect on the economy, though Cutbacks to university and research funding were causing significant impacts in some cities, and could have longer-term effects on productivity. Analysts said that Powell's remarks show he is continuing to toe the line that the Fed is well-positioned to wait for greater clarity before considering a change to its policy stance. The key takeaway is that Powell is sticking to this wait-and-see approach, despite other influential officials -- like Governor Waller's -- preference to ease faster and to a greater extent in response to the tariffs. LHMeyer/Monetary Policy Analytics said that the Fed does not see their job as coming in and trying to be an obstacle to normal price discovery, adding that we would have to see some sort of indication of market failure before the central bank stepped in. Elsewhere, JPM's Chief US Economist Michael Feroli noted that nothing that has so far occurred is indicative of a market that’s severely malfunctioning, even though the situation is challenging.

**ECB REVIEW**: As expected, the ECB pulled the trigger on another 25bps rate cut, taking the deposit rate to 2.25%; the upper end of the perceived neutral range. Accordingly, policymakers opted to drop the “restrictive” classification on rates. Elsewhere, the statement reiterated the bank’s meeting-by-meeting approach and refusal to commit to a specific policy path. On the trade war, policymakers are of the view that the volatile market response to trade tensions is likely to have a tightening impact on financing conditions. This suggests that a dovish offset could be required from the Bank. In the aftermath of the announcement, source reporting by Reuters revealed that today’s decision was unanimous with some policymakers dropping previous arguments for a pause in the rate-cutting cycle. At the follow-up press conference, President Lagarde highlighted the economic uncertainty presented by the trade war, whilst emphasising the downside risks to inflation, including from the appreciation in the EUR. During the Q&A segment, Lagarde stressed that no argument was made for a 50bps rate cut and they did not discuss providing stimulus. However, the President acknowledged that the GC is viewing the impact of tariffs via the lens of a negative demand shock. Overall, the messaging from the ECB is one of agility when it comes to policymaking but also one of concern for the Eurozone’s growth prospects in lieu of global trade tensions. As such, the ECB has stood out relative to some peers in recent weeks who have taken a more balanced approach and opted to place more emphasis on the upside risks to inflation from tariffs. Post-meeting market pricing has moved in a more dovish direction with 64bps of loosening seen by year-end vs. circa 53bps pre-release.

**BOC REVIEW**: The Bank of Canada left rates on hold at 2.75%, vs split expectations for a hold and for a 25bps cut, although both options were discussed. The BoC also left its estimate of the neutral rate unchanged between 2.25-3.25%, implying that current rates sit at the centre of the neutral range. The BoC also noted how they will support economic growth while ensuring that inflation remains well controlled. It stated it will proceed carefully, with particular attention to risks and uncertainties facing the domestic economy. The Bank of Canada acknowledged that major shifts in US trade policy have increased uncertainty, cut prospects for growth, and raised inflation expectations. However, it noted that longer-term inflation expectations are little changed, although short-term inflation expectations have moved up. It also noted that from April, inflation will be pulled down for one year by the removal of consumer carbon tax, while lower oil prices will also dampen inflation. Within the monetary policy report, the GC released two scenarios for their forecasts. In the first scenario, where most tariffs imposed are negotiated away, uncertainty is high but tariffs are limited in scope. Canadian growth weakens temporarily and inflation remains around the 2% target. In scenario two, where a long-lasting trade war unfolds, a protracted trade war causes Canada's economy to fall into recession this year and inflation rises temporarily above 3% next year. It also notes how many other trade policy scenarios are possible. There is also an unusual degree of uncertainty about the economic outcomes within any scenario since the magnitude and speed of the shift in US trade policy are unprecedented. Within the MPR, the BoC updated its estimate of the output gap in Q1 to be between -1% and 0% (prev. -1.25% and -0.25%) indicating an economy in modest excess supply. Governor Macklem noted how the BoC are prepared to act decisively if incoming information points clearly in one direction, and their focus will be on assessing the downward pressure on inflation from a weaker economy, and the upward pressure from higher costs. In response to the rate decision, CAD saw strength as rate cut bets for this meeting were unwound, meanwhile looking ahead money markets are still pricing c. 50bps of easing by year-end, with the June decision currently priced as a coin flip.

**RBA MINUTES REVIEW**: RBA Minutes from the March 31st-April 1st rate decision were in fitting with the actual policy meeting and provided very little in the way of clues for future policy. The minutes stated it is not yet possible to determine the timing of the next move in rates and it is not appropriate at this stage for policy to react to potential risks. The RBA also commented that the May meeting would be an opportune time to reconsider and that the decision was not predetermined, while it stated it is possible that global uncertainty over US tariffs could have a significant impact and the board saw risks on both the upside and downside for the Australian economy and inflation. As such, there were no major fireworks following the release although money markets are fully pricing in at least a 25bps rate cut for the next meeting in May and outside odds of a jumbo 50bps move due to the recent global trade and economic uncertainty brought triggered by US President Trump's tariff policies and China's retaliation.

**BOK REVIEW**: The Bank of Korea kept its base rate unchanged at 2.75%, as expected, with the rate decision not unanimous as board member Shin Sung-Hwan dissented and saw a need to respond to the worsening economic outlook. BoK said uncertainties to the growth path are higher and headwinds to economic growth are seen bigger than previously expected, while it will determine the timing and pace of any further base rate cuts and noted that the monetary easing policy stance is to continue. BoK Governor Rhee said most board members saw lower interest rates in the three months ahead and they will factor in the interest rate differential with the US for the next rate decision. Furthermore, Rhee said they will assess in May whether the policy rate needs to go below 2.25% by year-end.

**CBRT REVIEW**: The CBRT unexpectedly hiked its weekly repo rate to 46.0%, up from 42.5%. Markets had been expecting the central bank to hold rates, following political turmoil, the subsequent weakening of the currency, and the ad hoc lift in the overnight (O/N) rate. Despite going against market pricing and analyst consensus, the accompanying statement reiterated that policy would continue to be conducted in a data-driven and predictable manner. It also tied the decision for a "tight monetary stance" to the aim of strengthening the disinflation process, supporting lira appreciation, and improving inflation expectations. These factors will remain in focus heading into the next meeting.